

The Outlook for Federal Dairy Policy, Is a Major Change Coming?

Dr. Scott Brown

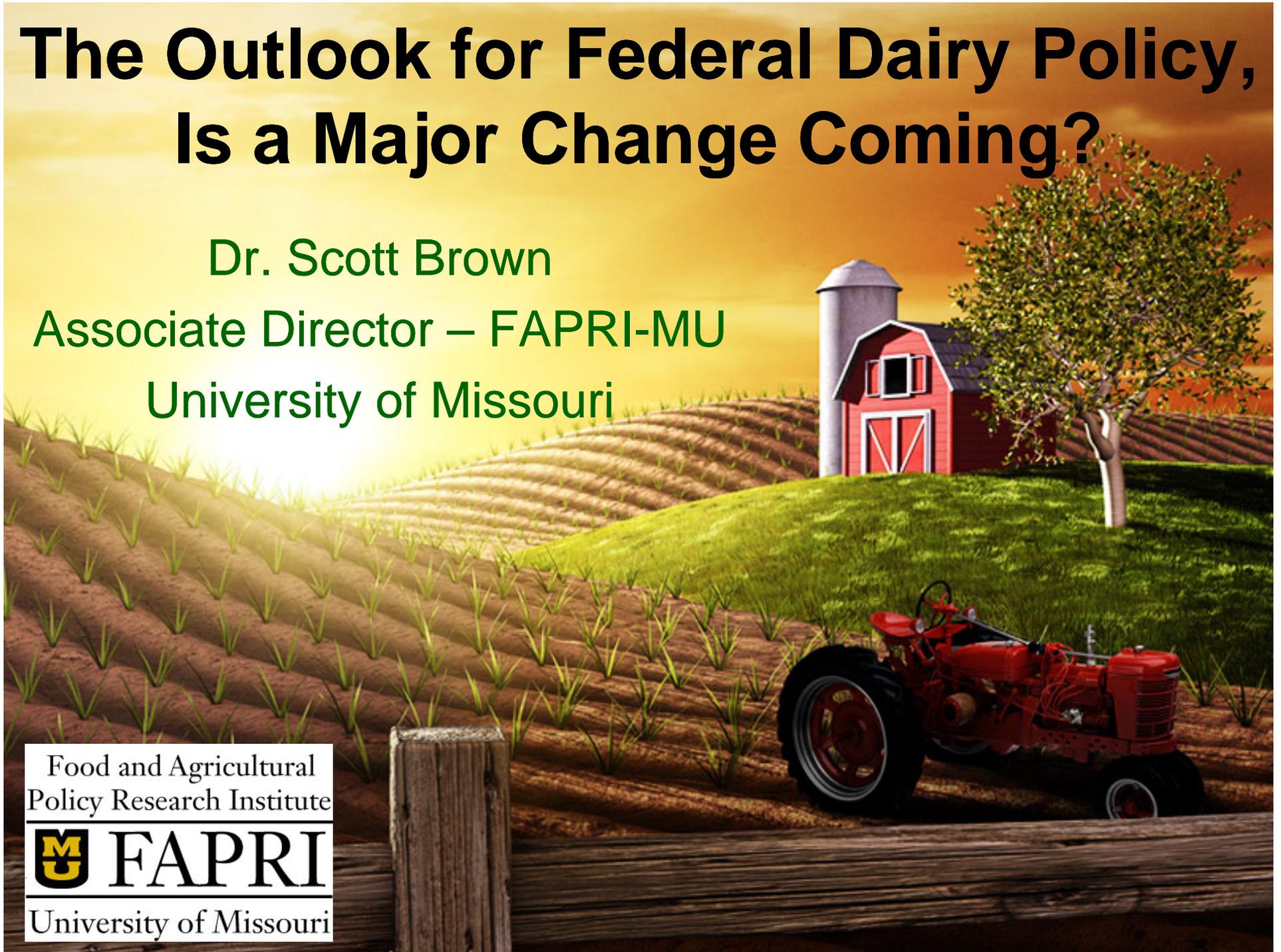
Associate Director – FAPRI-MU

University of Missouri

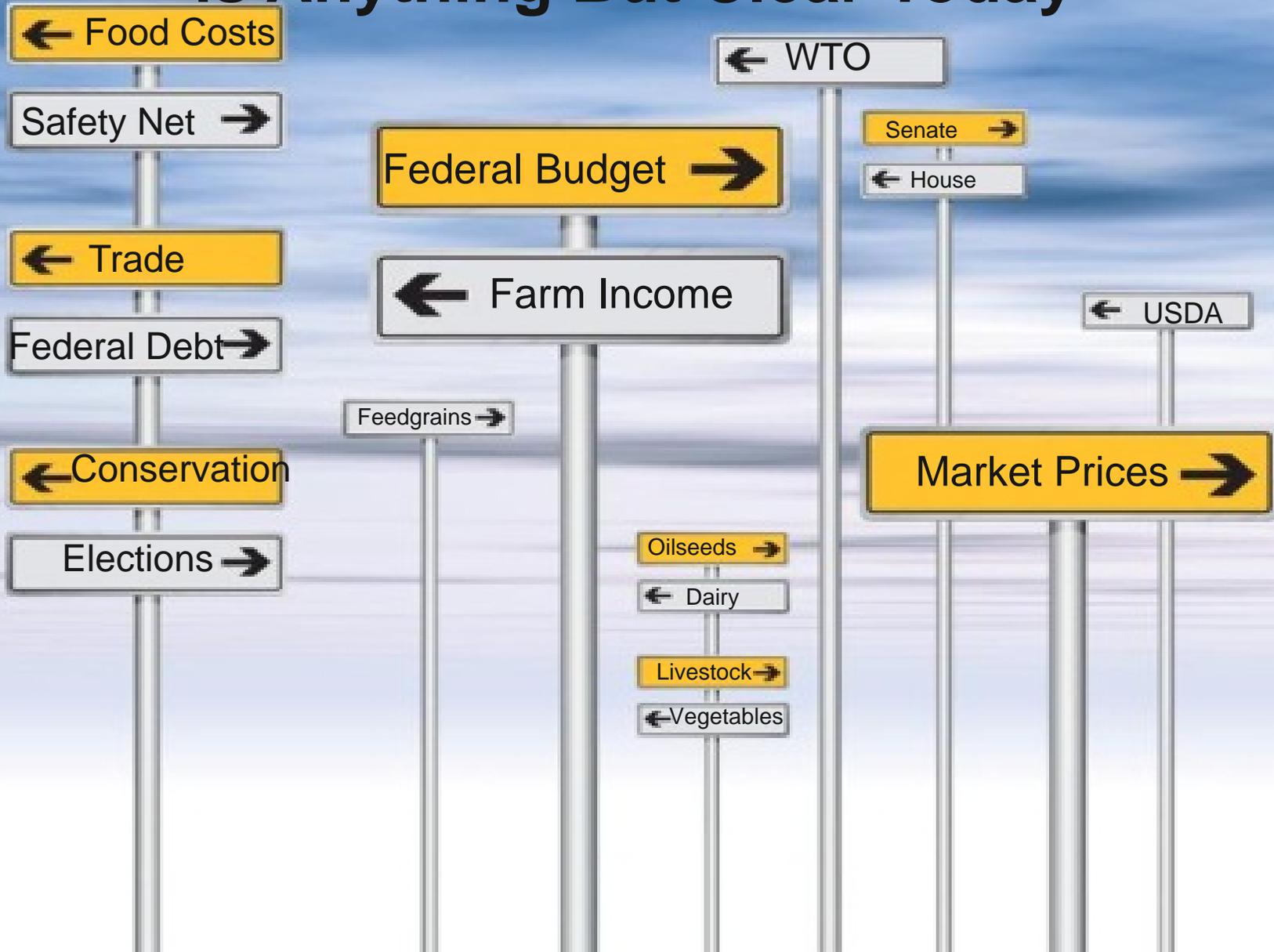
Food and Agricultural
Policy Research Institute



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The Road to the Next Farm Bill is Anything But Clear Today



The Changed Political Landscape

- Post-2010 Election
 - House Agriculture Committee
 - Chair Frank Lucas (R) OK
 - Ranking Collin Peterson (D) MN
 - Senate Agriculture Committee
 - Chair Debbie Stabenow (D) MI
 - Ranking Pat Roberts (R) KS



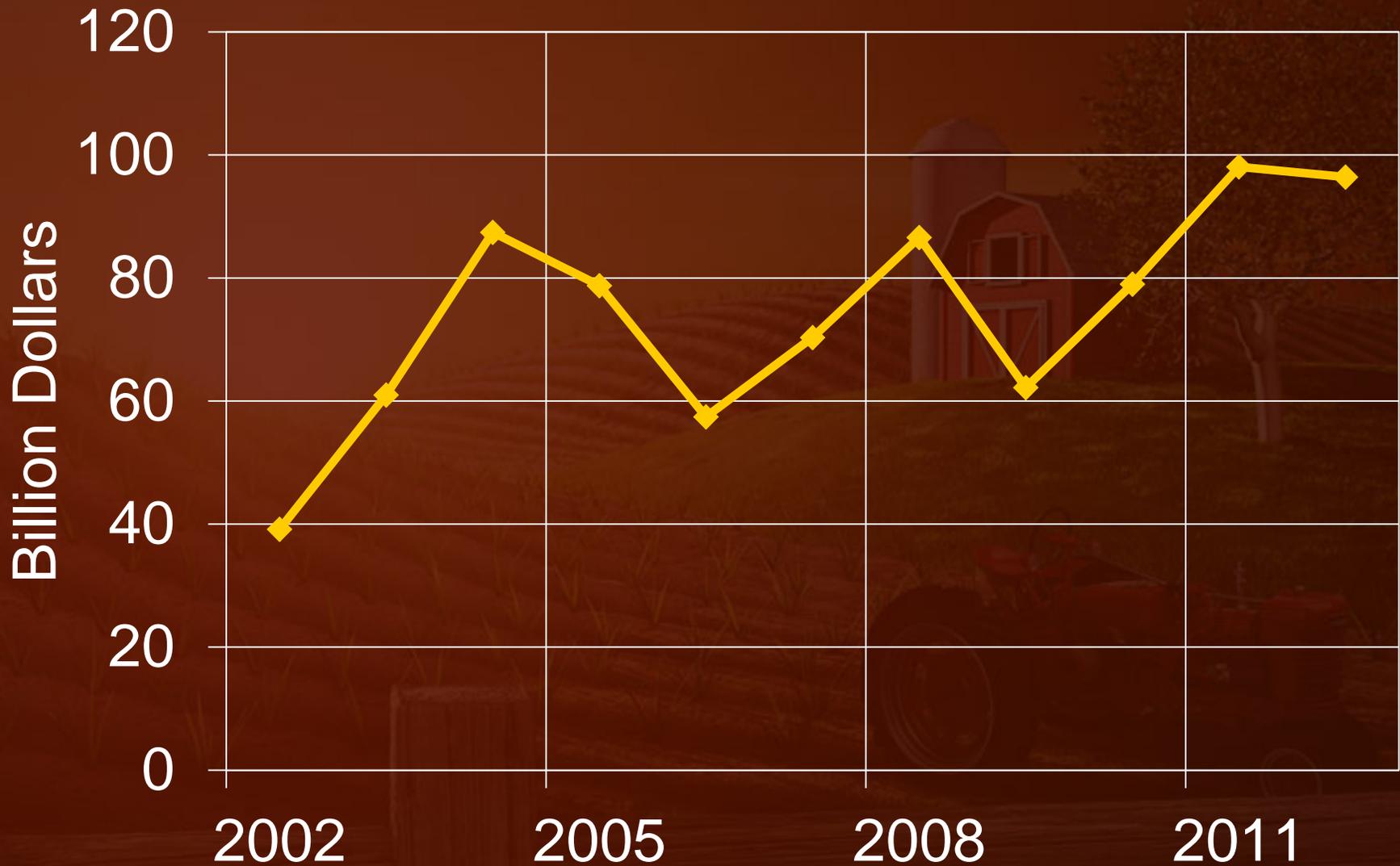
What Does This New Political Landscape Mean?

- Frank Lucas has signaled an interest to start over on farm bill discussions
- Collin Peterson was trying to get a new farm bill out in 2011
- Blanche Lincoln interested in Southern commodities like cotton and rice
- Debbie Stabenow may show more support for fruits and vegetables, nutrition programs
- Expect the farm bill process to proceed slowly, there are many big issues on the Congressional agenda
- Don't forget, 2012 Presidential Election

Will the General Farm Outlook Be Important To The Next Farm Bill?

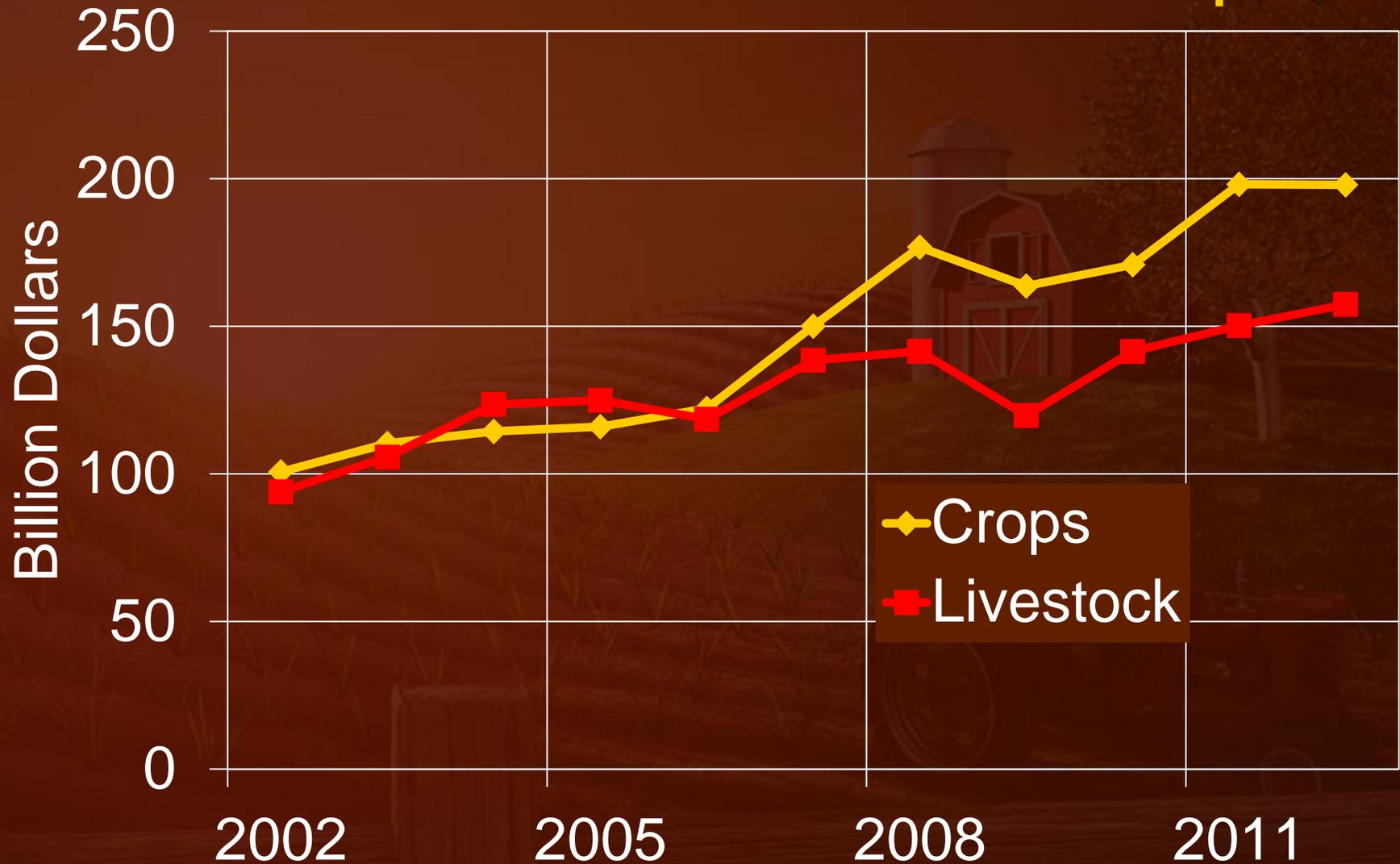


U.S. Net Farm Income – A 2011 Record?



Source: FAPRI, March 2011

Not All Commodities Have the Same Financial Health – Cash Receipts

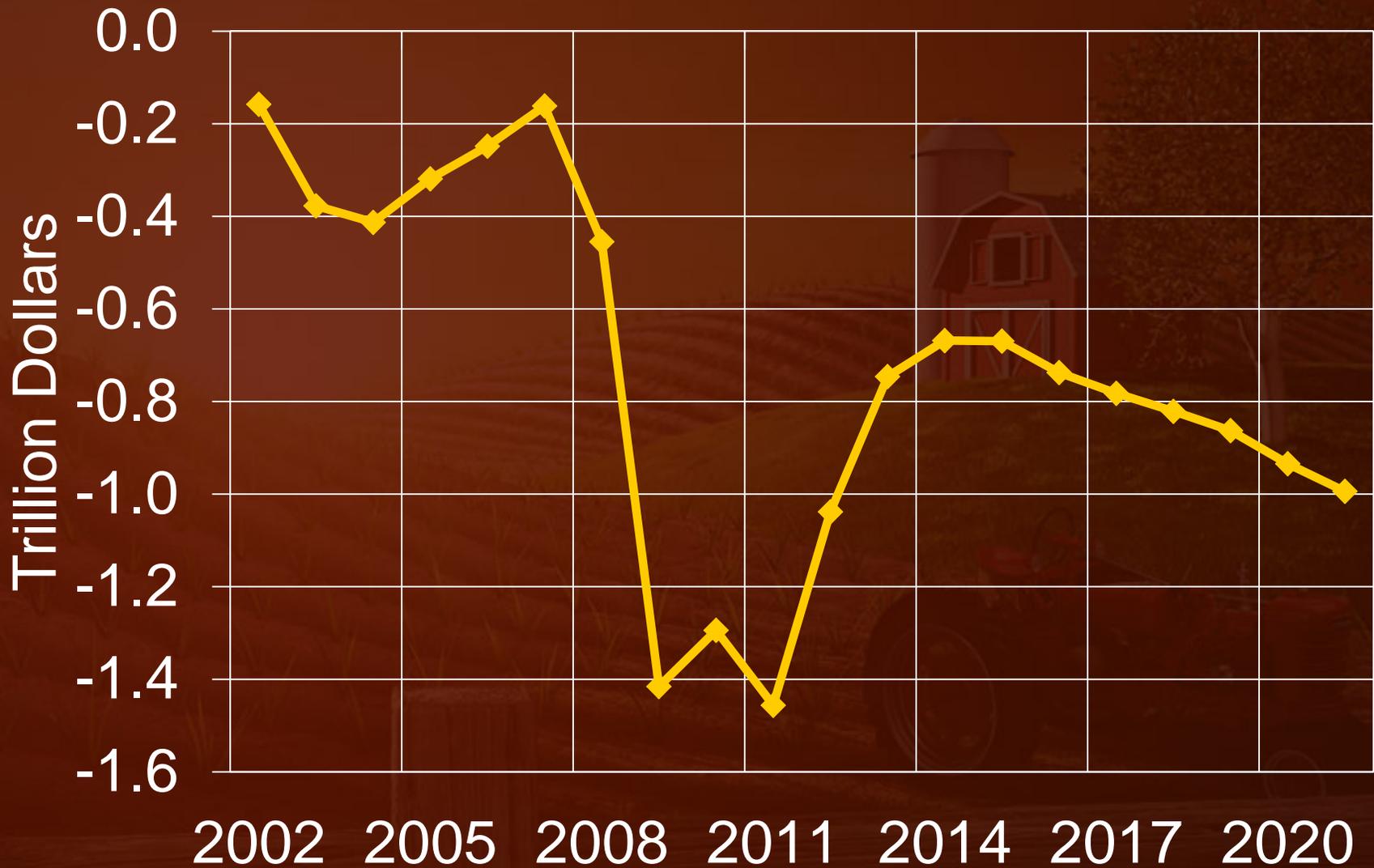


Source: FAPRI, March 2011

The Federal Budget Likely A Major Driver To Farm Bill Development

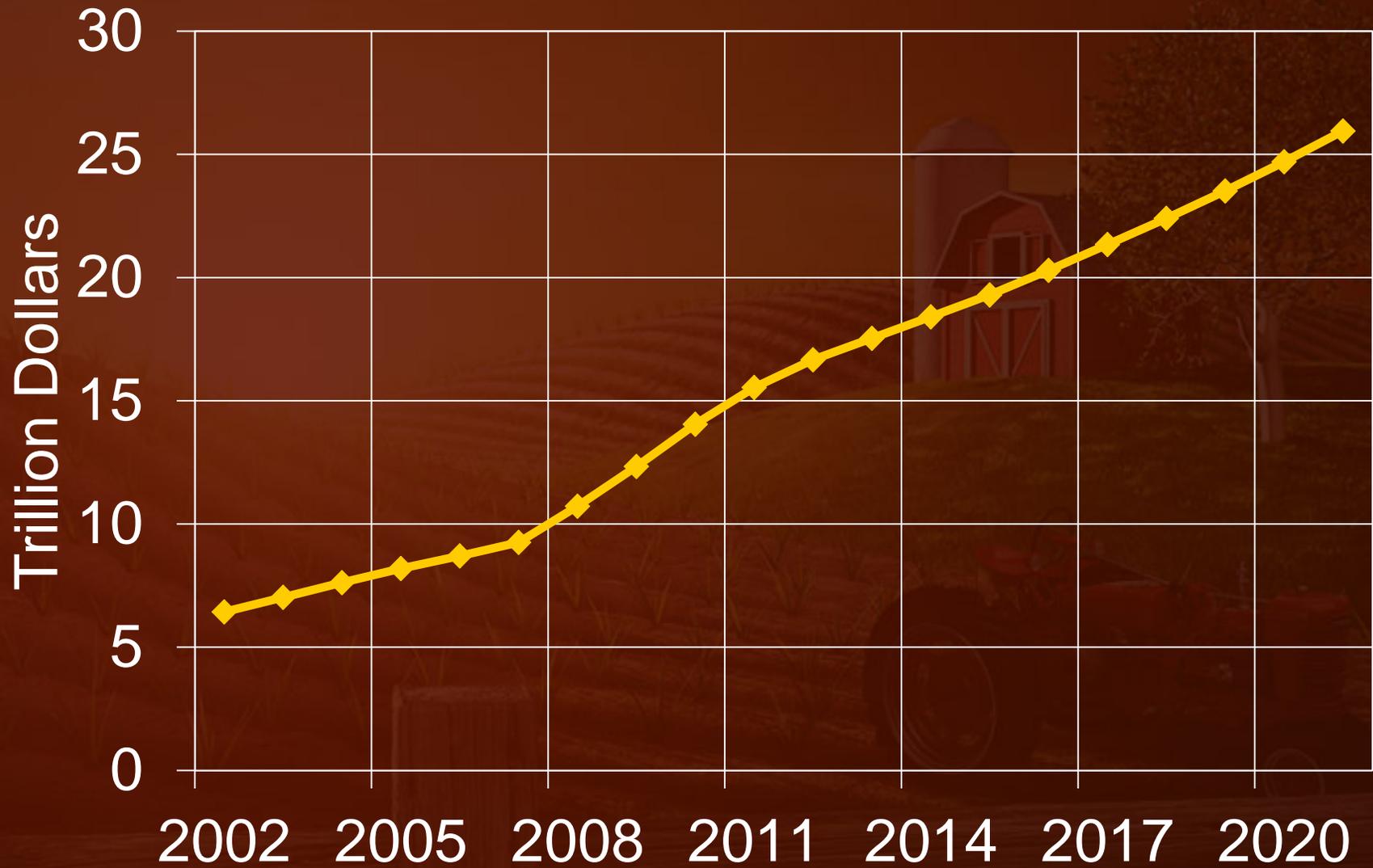


Federal Budget Surplus



Source: IHS Global Insight, June 2011

U.S. Federal Debt



Source: IHS Global Insight, June 2011

How Could the Federal Budget Affect the Farm Bill Development?

- Agriculture Committees given reconciliation instructions in the annual Congressional Budget Resolution
- Authorizing committees, like Agriculture, are given budget reductions and they normally decide what programs to cut
- Latest budget reconciliation was FY2006, \$2.7 billion cut
- Past budget reconciliations: 1987, 1989, 1990, 1993, 1995
- The 1990 and 1995/96 farm bills were written with reconciliation instructions

Writing the Next Farm Bill With Only Baseline Spending

- The 2008 Farm Bill took months to complete and additional money was added from other committees
- The 2002 Farm Bill added \$73.5 billion in new funds over ten years and was finished in May 2003
- Struggle among commodity groups for limited funds
- 37 provisions currently have no “baseline” beyond FY2012
- Flat baseline spending may be a “best” outcome

Some Programs Lack Baseline After FY2012

- To make the 2008 farm bill fit within spending guidelines, 37 programs were not extended beyond FY2012
- SURE, Wetlands Reserve Program, Horticulture and Organic Programs, etc.
- Amounts to around \$9 billion if these 37 programs were extended to 2017
- Where does this funding come from if these programs are extended?

Other Issues That May Arise

- Current commodity programs end in FY2012
- Without Congressional action, farm policy reverts to permanent law, Agricultural Adjustment Act of 1949
 - Quotas
 - Parity pricing
- Congress could always chose to extend current law for one year
 - No baseline programs problematic
- Timing Shifts
 - Moving spending outside of the scoring window or receipts inside the window
 - Many of these shifts already occurred
 - Harder to count these under today's rules

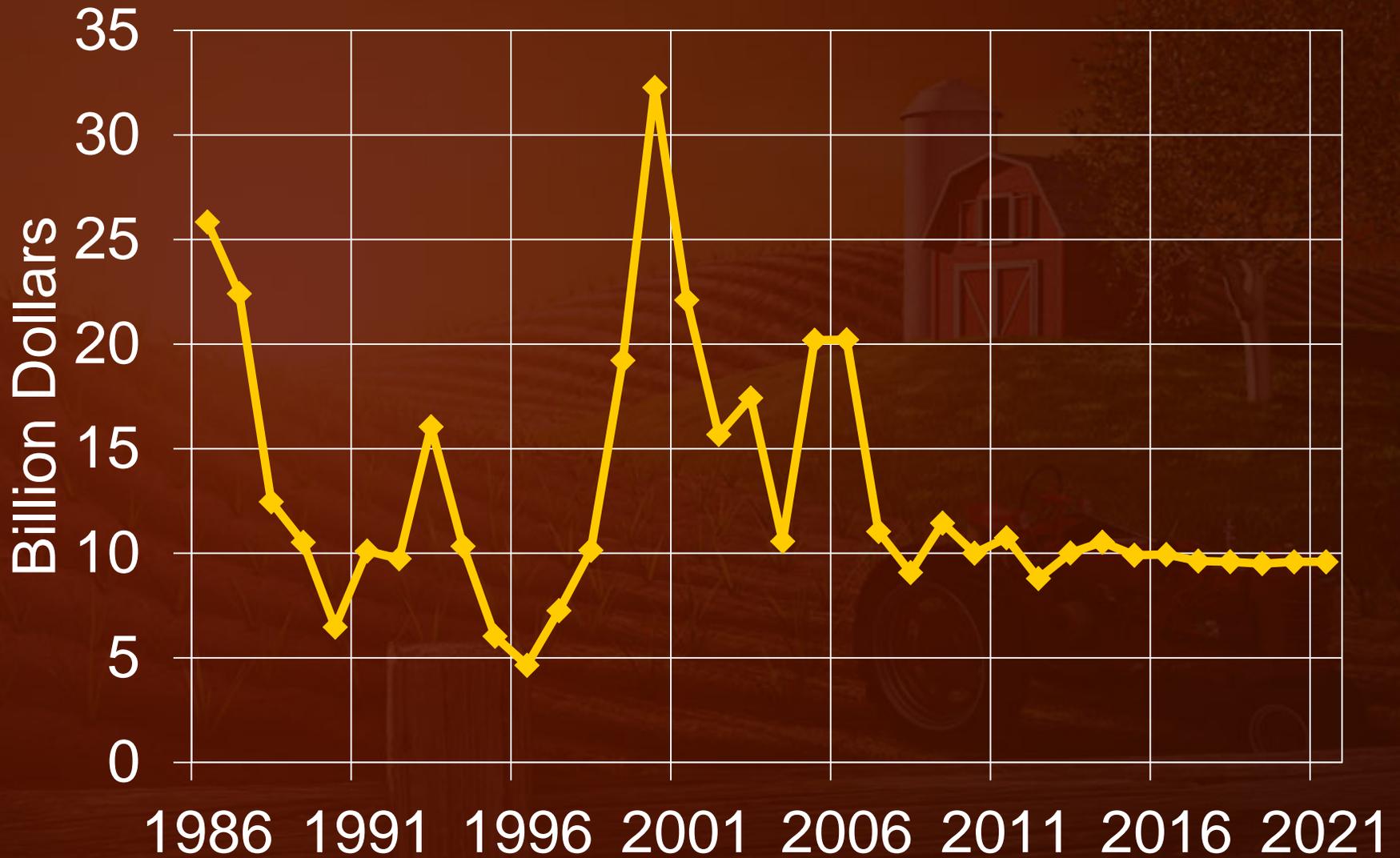
A Quick Primer to the CBO Baseline

- The Congressional Budget Office (CBO) baseline scores the cost of federal programs over the next ten years
- This is a forward looking process not a look back at what programs cost
- When discussion arises about the new farm bill must fit within baseline spending, its spending must not exceed continuation of current programs

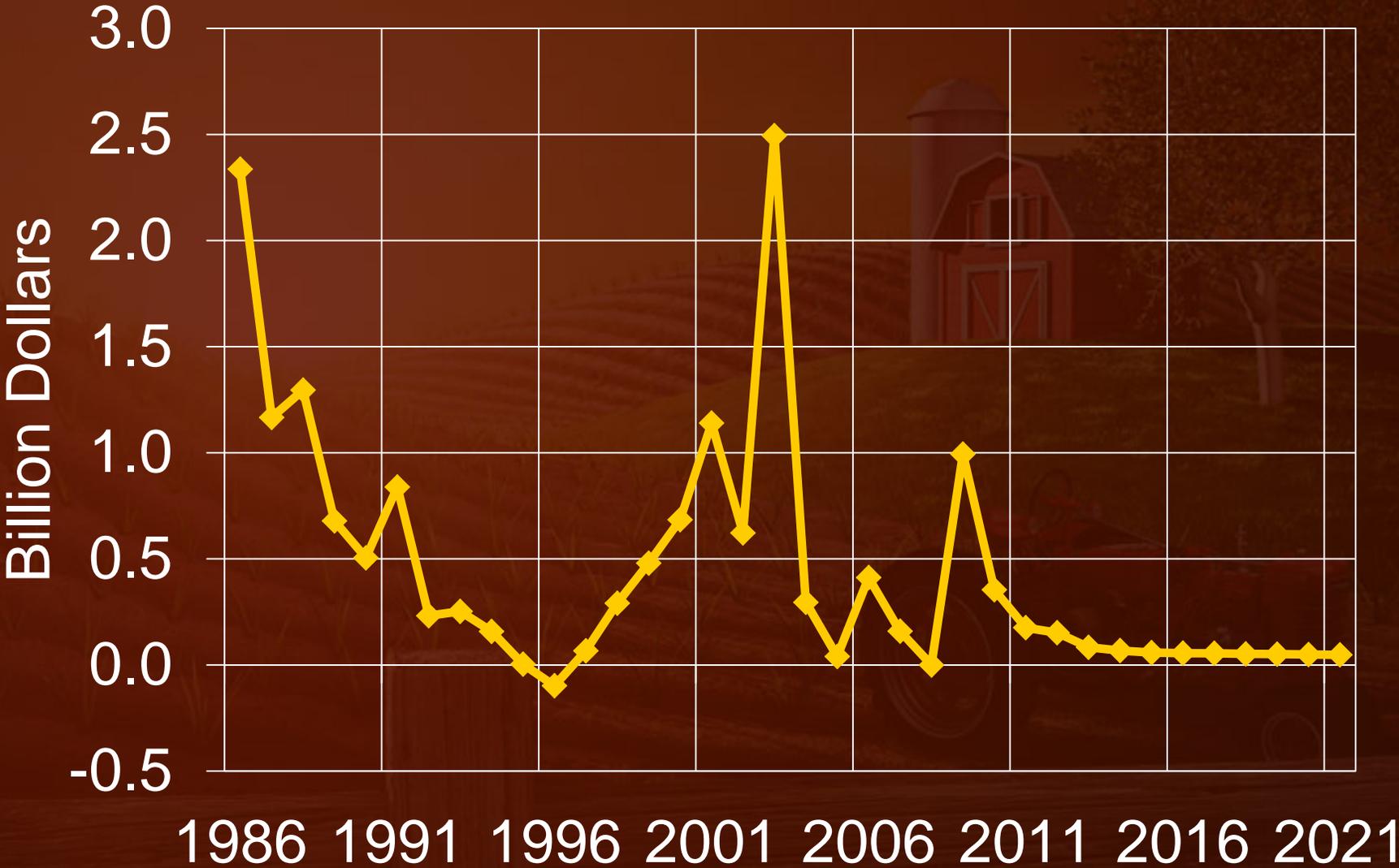
Let's Focus on the CBO Agriculture Baseline



Commodity Credit Corporation Outlays



Commodity Credit Corporation Dairy Outlays



Issues Surrounding New Dairy Policy

- When is new dairy policy enacted?
 - 2011 or 2012
 - Beyond
- Important drivers in determining future direction of dairy policy
 - Federal budget
 - Financial health of the industry
- What new policy ideas are in the discussion?
 - Foundation for the Future
 - Supply management programs
 - Savings accounts
 - No change

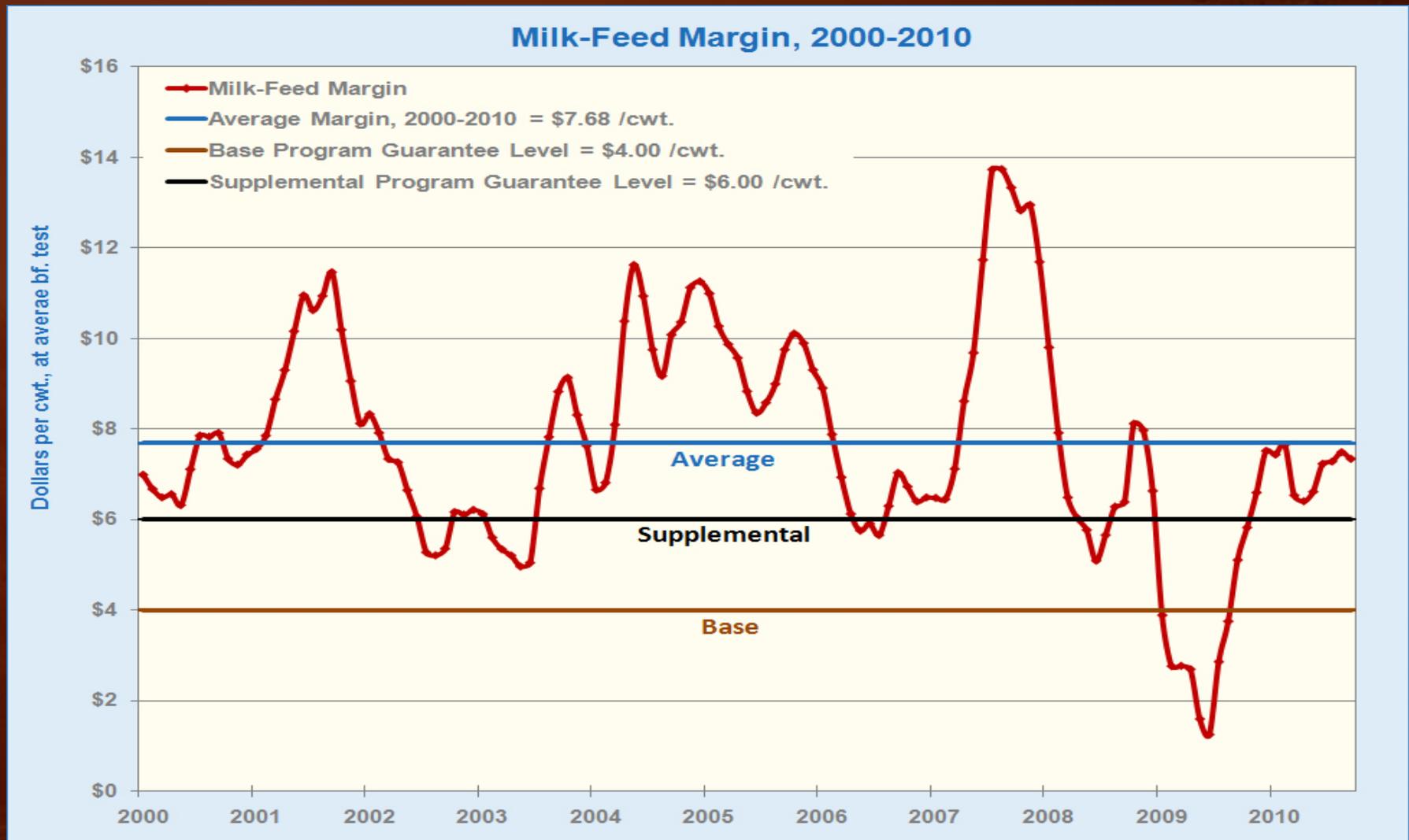
Dairy Provisions in the 2008 Farm Bill

- MILC Program
 - 2.985 million pound marketings cap through FY2012, then drops to 2.4 million pounds
 - Feed cost adjuster at \$7.35 through FY2012, then increases to \$9
 - Producers paid 45% of the difference between the trigger and market price, FY2012 34%
- Dairy Product Price Support Program
 - Changed in 2008 farm bill from the milk support price program

Foundation For The Future (FFTF)

- Four Major Pieces to FFTF
 - Margin Insurance (DPMPP)
 - Supply Management (DMSP)
 - Revamp FMMOs –Competitive Pay Prices
 - Eliminate Price Support and the MILC Program
- I'm not endorsing FFTF only trying to explain the economic effects of the program, eliminate misinformation

Margin Protection Key to FFTF



Different Bases for the FFTF Program

- Margin Insurance (DPMPP) – 90% of some historical production level
- Allows for New Entrants
- Supply Management (DMSP) – Previous three months or year ago level
- More adjustment to supply management base than the margin insurance base

How does the Dairy Market Stabilization Program work?

- \$6 for 2 consecutive months
 - Producers paid for 98% of their base milk marketings
 - Maximum reduction is 6% of current milk marketings
- \$5 for 2 consecutive months
 - Producers paid for 97% of their base milk marketings
 - Maximum reduction is 7% of current milk marketings
- \$4 for 1 month
 - Producers paid for 96% of their base milk marketings
 - Maximum reduction is 8% of current milk marketings

DMSP Only Analysis

- Let's Look How The Program Would Have Operated in 2009
- This is only an example of how the program works in a low margin environment

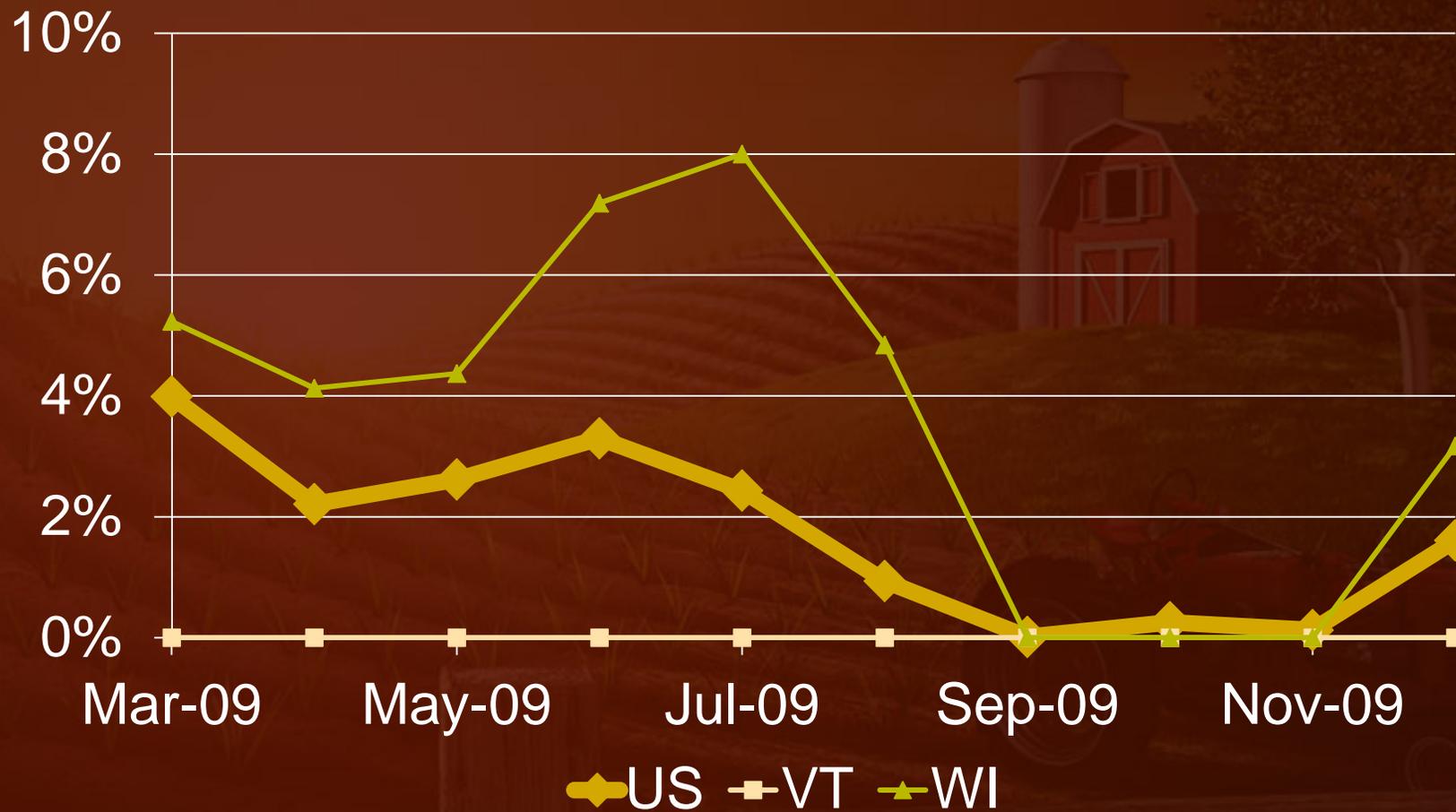
Key Assumptions – Producer Response to DMSP

- Assume they choose to deliver only 50% of the milk over the eligible quantity
- Why market that milk if the price is zero?
 - Build Base
 - Disposal Cost exceeds Hauling Cost
- New base determination incorporated
 - Assume most producers choose year ago production for the base
- There are no easy or “right” assumptions to make given the aggregate data we use

Monies Collected Under DMSP

- Assume any money collected under DMSP in period t is spent on cheese purchases equally in periods $t+1$, $t+2$ and $t+3$
- 10 % of cheese purchases displace commercial consumption

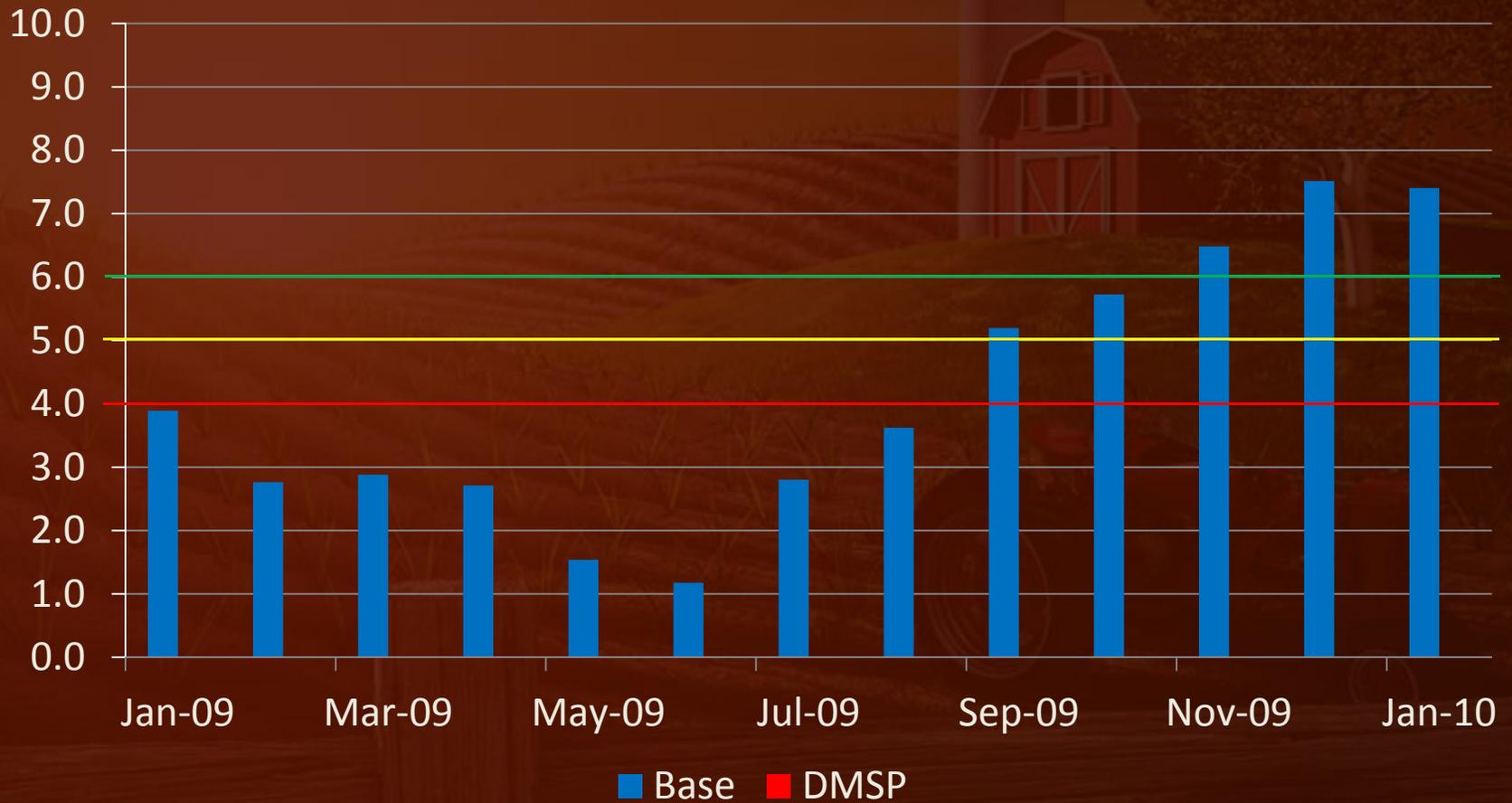
Percent of Milk Production Affected by DMSP



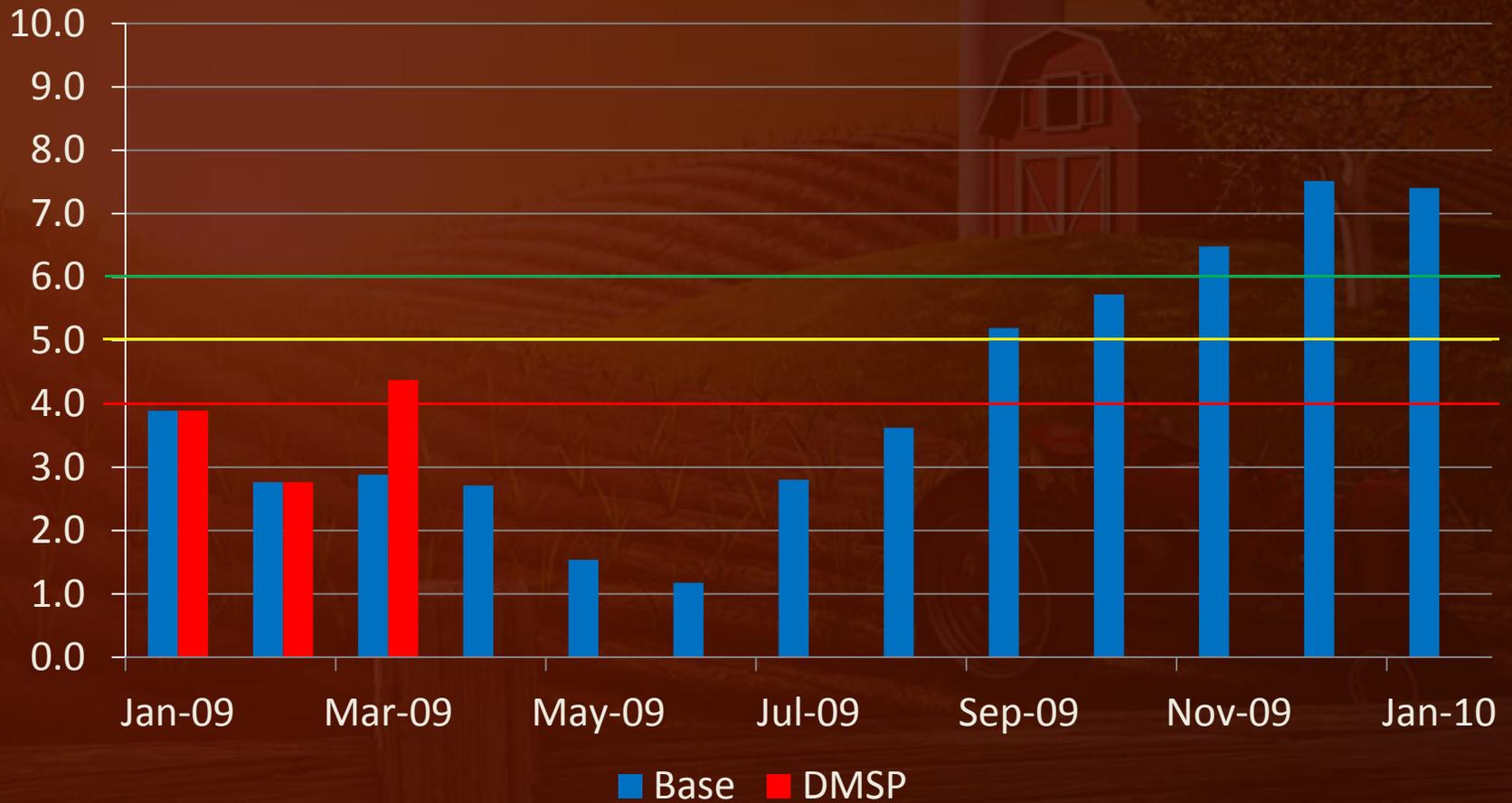
Margin Comparison With DMSP Operation

DMSP Trigger Level ■ \$4 trigger ■ \$4-\$5 trigger ■ \$5-\$6 trigger

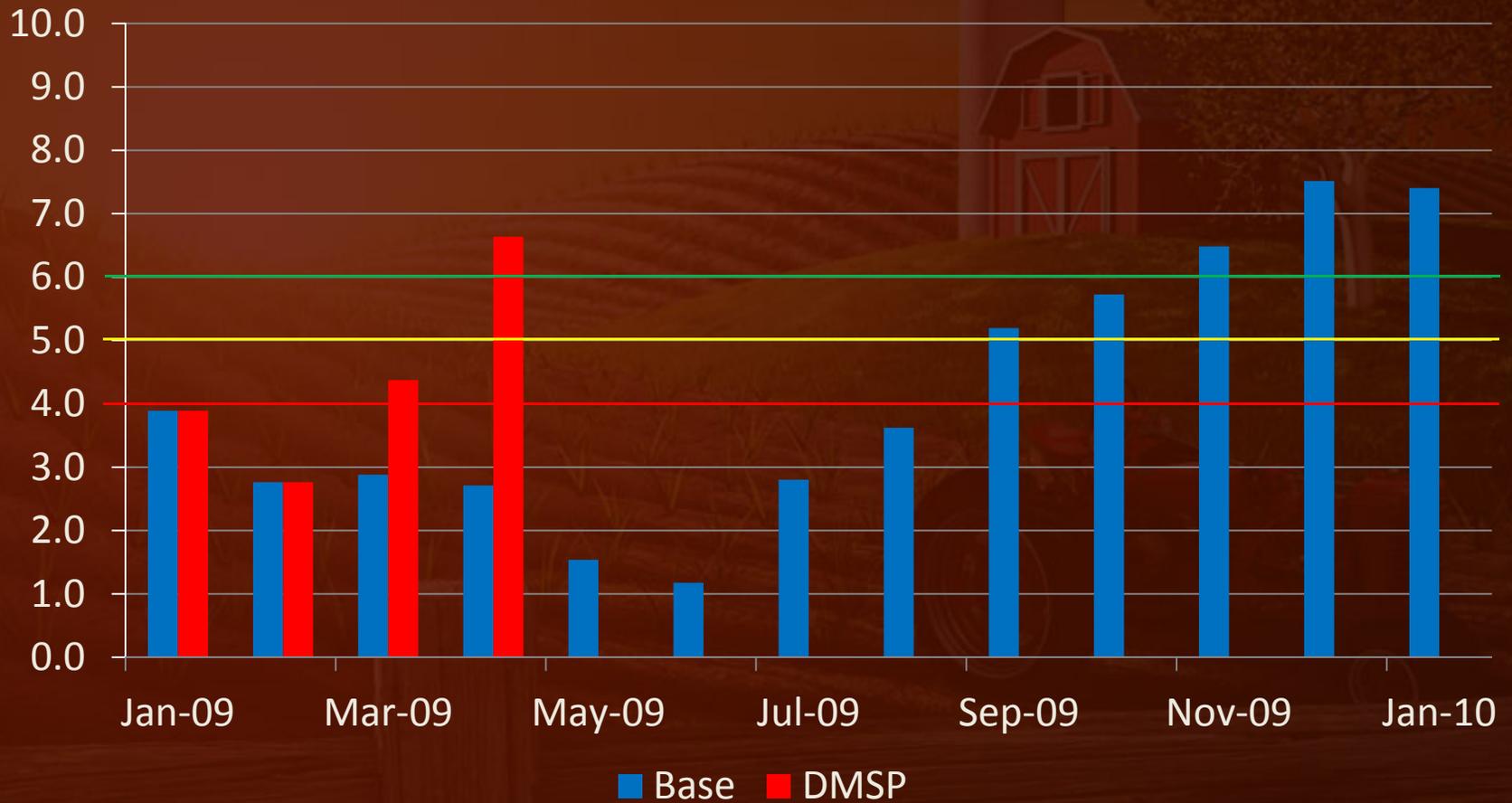
DMSP



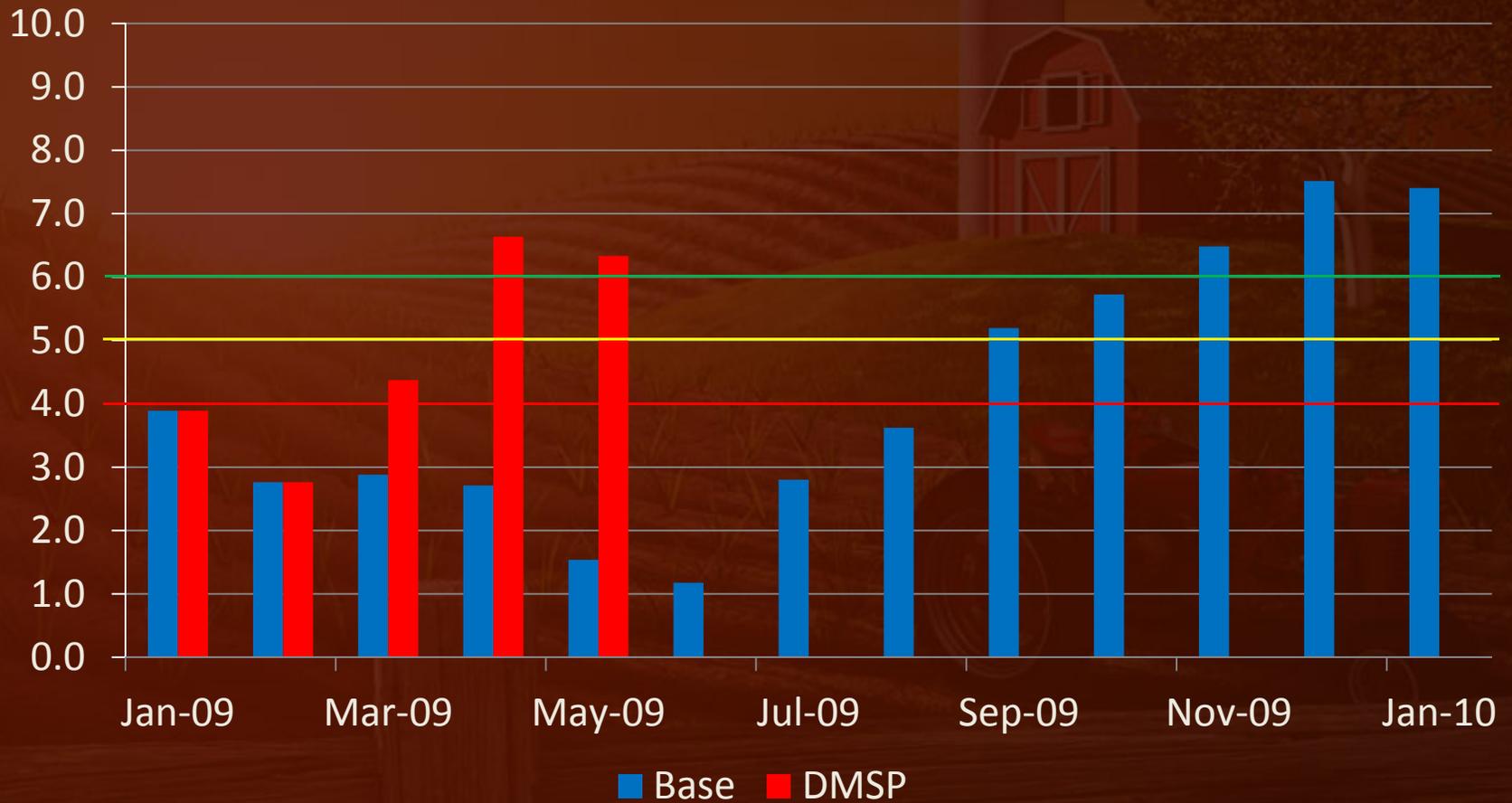
Margin Comparison With DMSP Operation



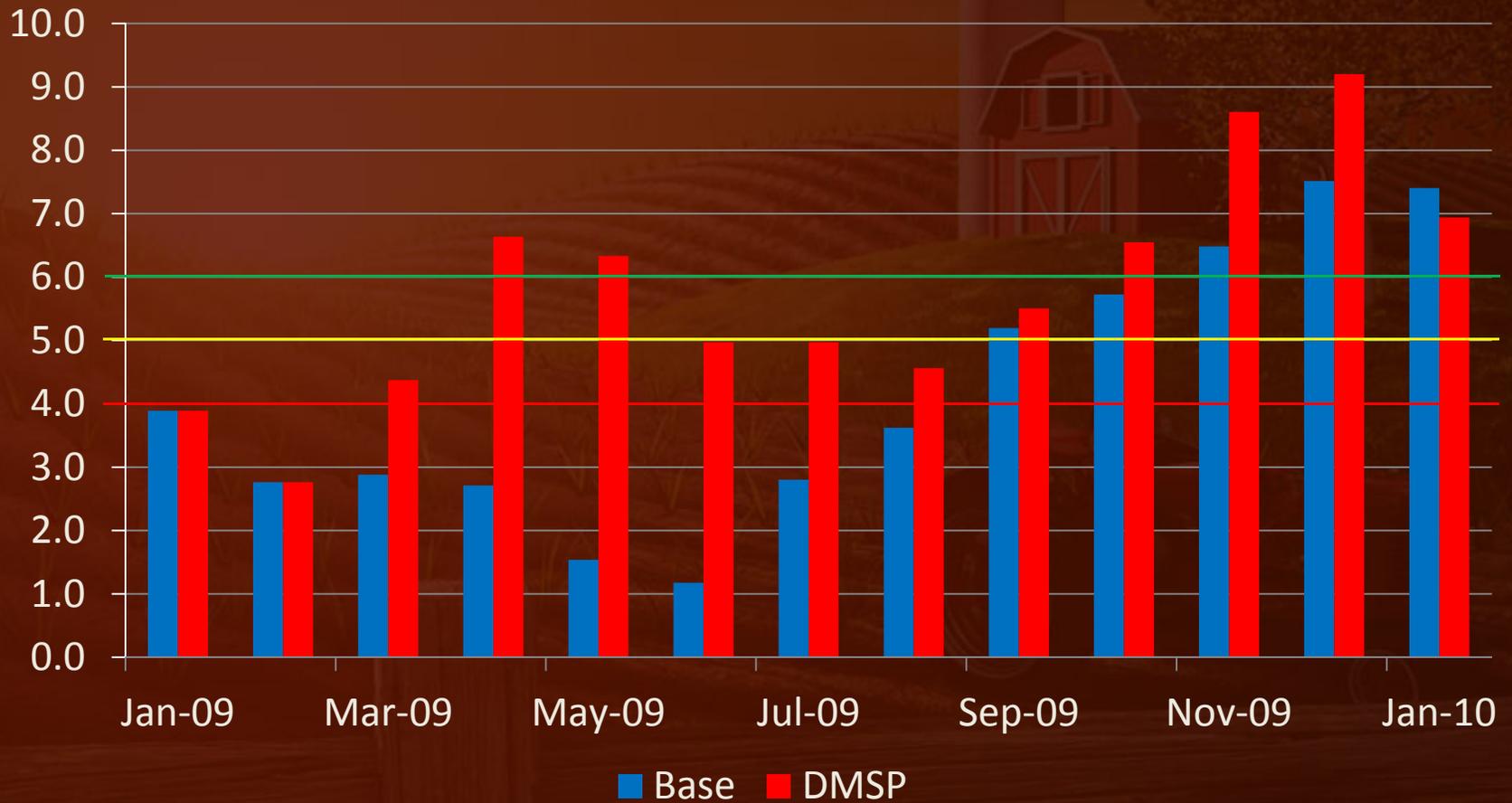
Margin Comparison With DMSP Operation



Margin Comparison With DMSP Operation



Margin Comparison With DMSP Operation



Summary Of DMSP

- It Will Lower The Cost of DPMPP
- Producers Will Be Limited in Milk Deliveries They Will Be Paid For
- Producers Do Not Pay Under DMSP
- Tough to Gauge Producer Behavior

DPMPP Operation

- Voluntary Program
- 2 levels of coverage:
 - Base Plan – program available to all producers at no cost
 - Supplemental Plan – program available to all producers seeking additional coverage
- Margin guarantees are fixed for Farm Bill duration
- Will not cover new production beyond milk base

What Would You Do?

Coverage Level

Premium per Cwt.

\$4.50

\$0.02

\$5.00

\$0.04

\$5.50

\$0.08

\$6.00

\$0.16

\$6.50

\$0.23

\$7.00

\$0.43

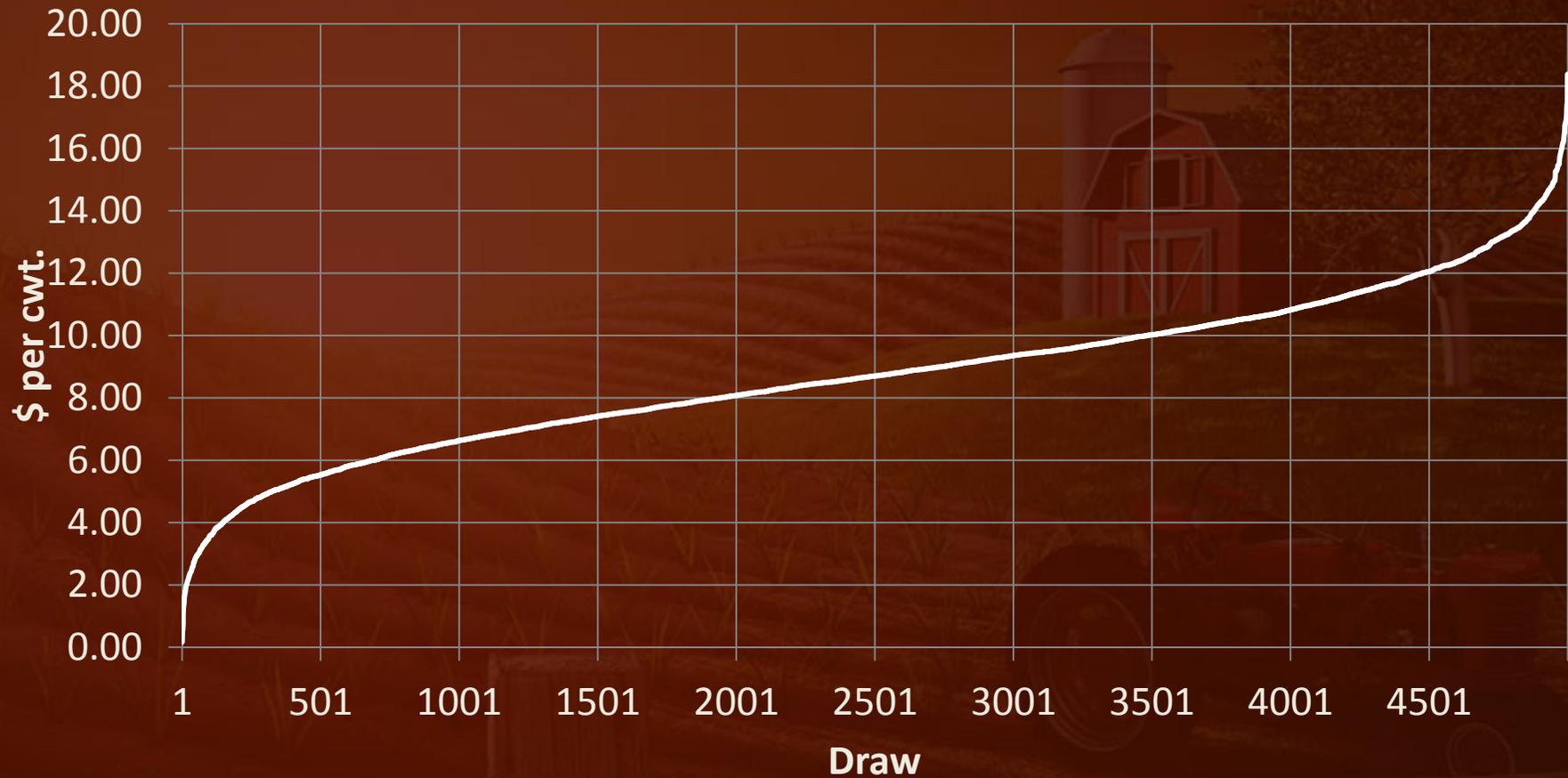
\$7.50

\$0.59

\$8.00

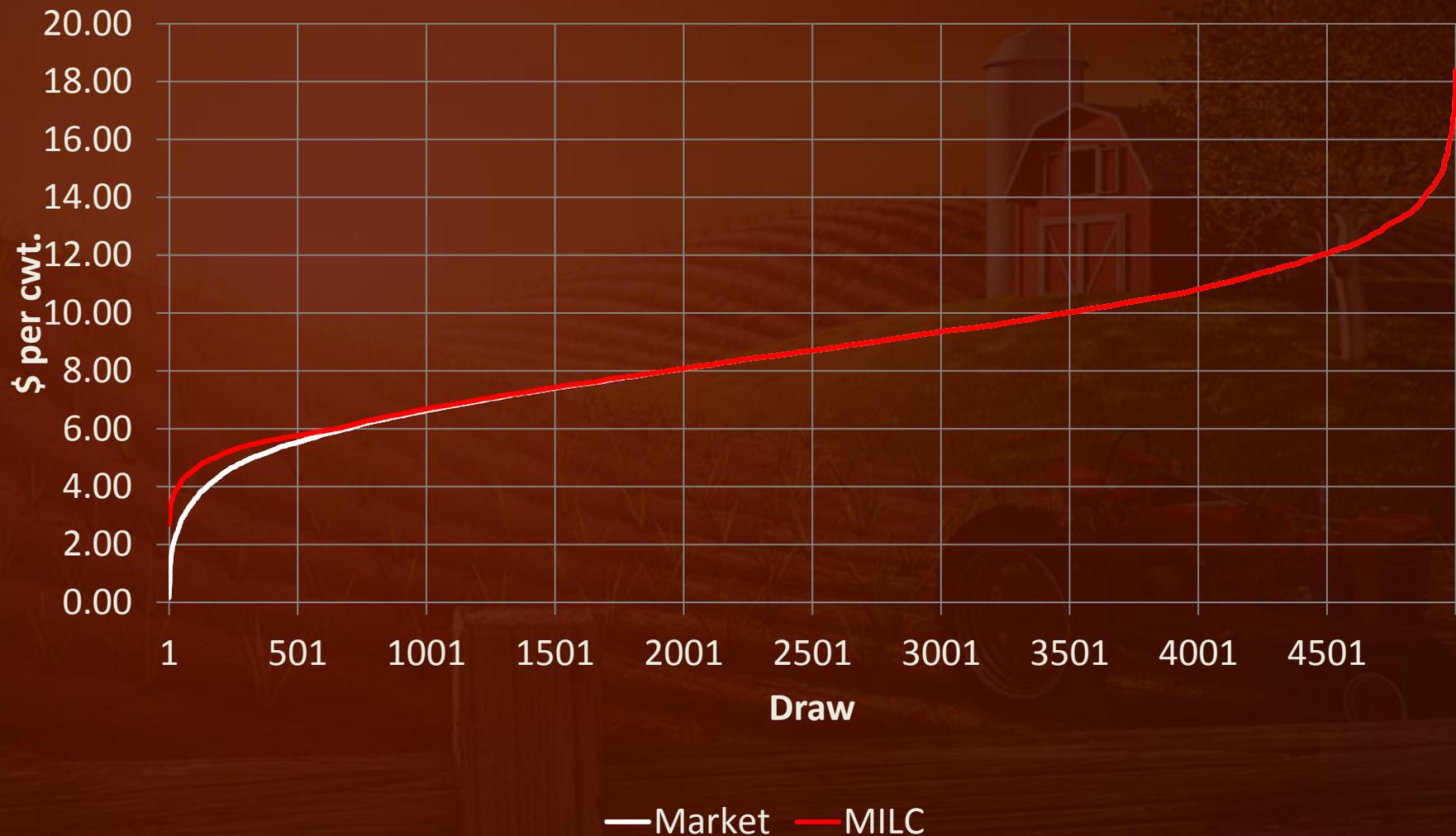
\$0.92

Range of FFTF Margin Outcomes

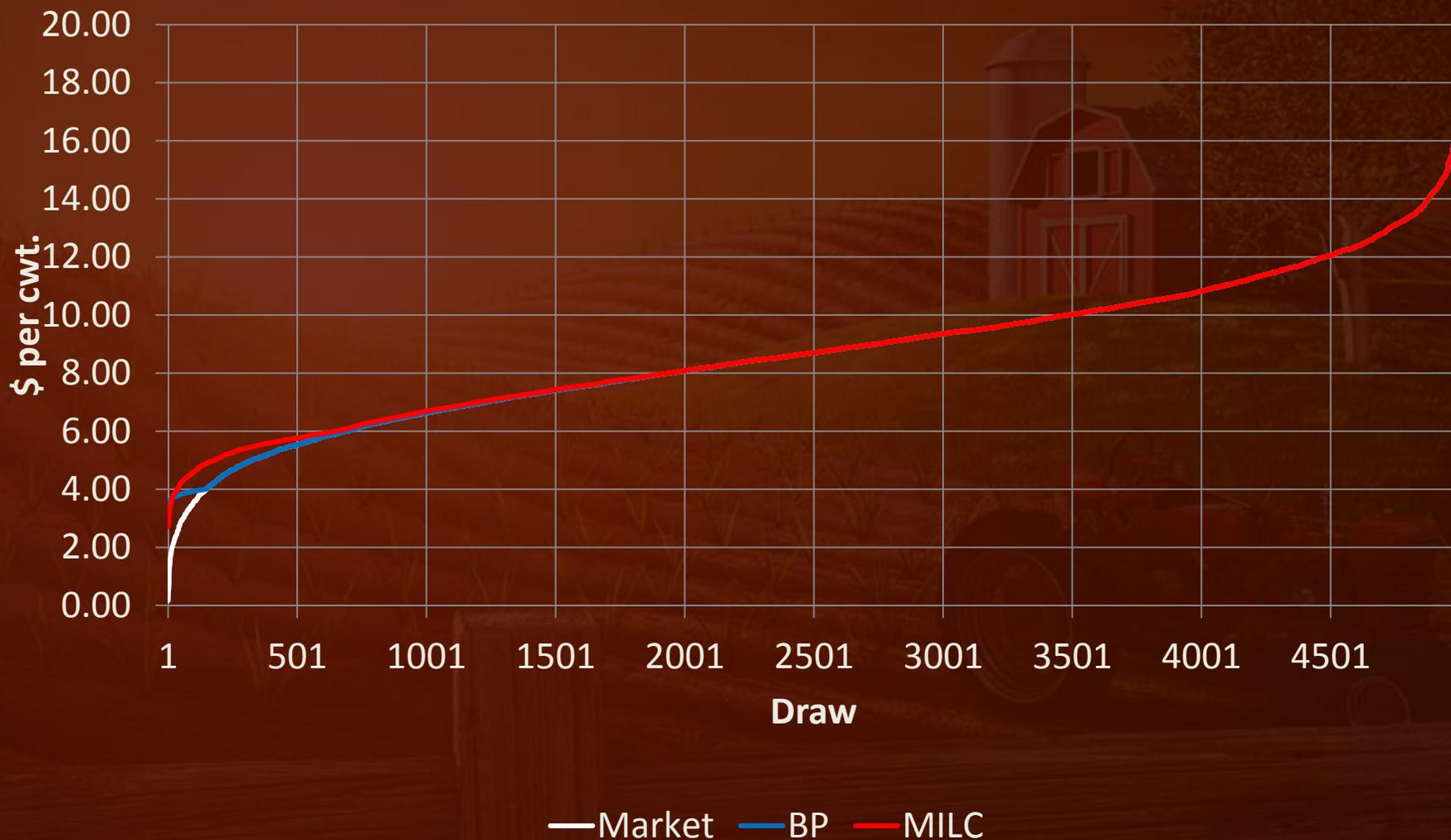


—Market

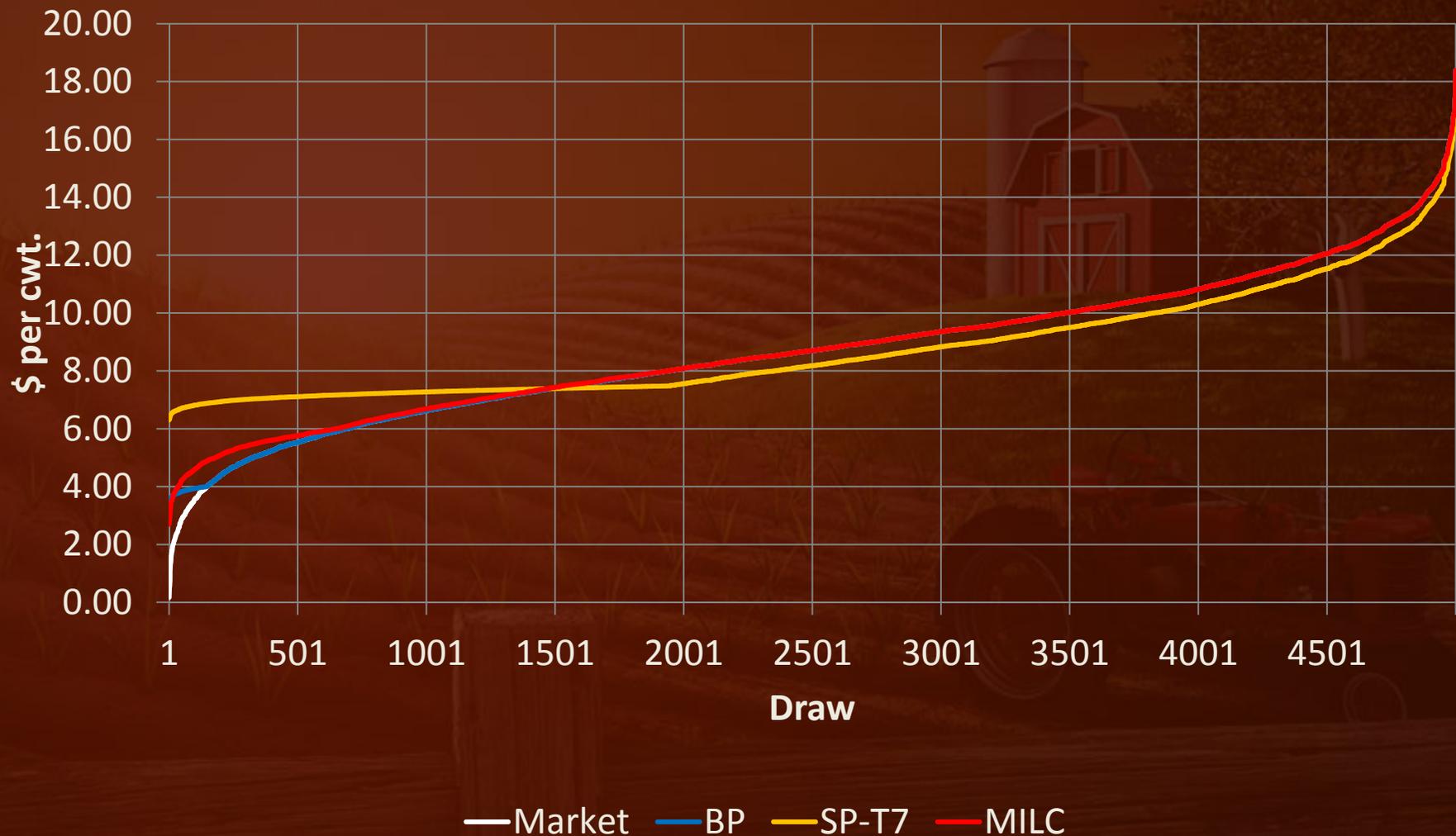
Range of FFTF Margin Outcomes



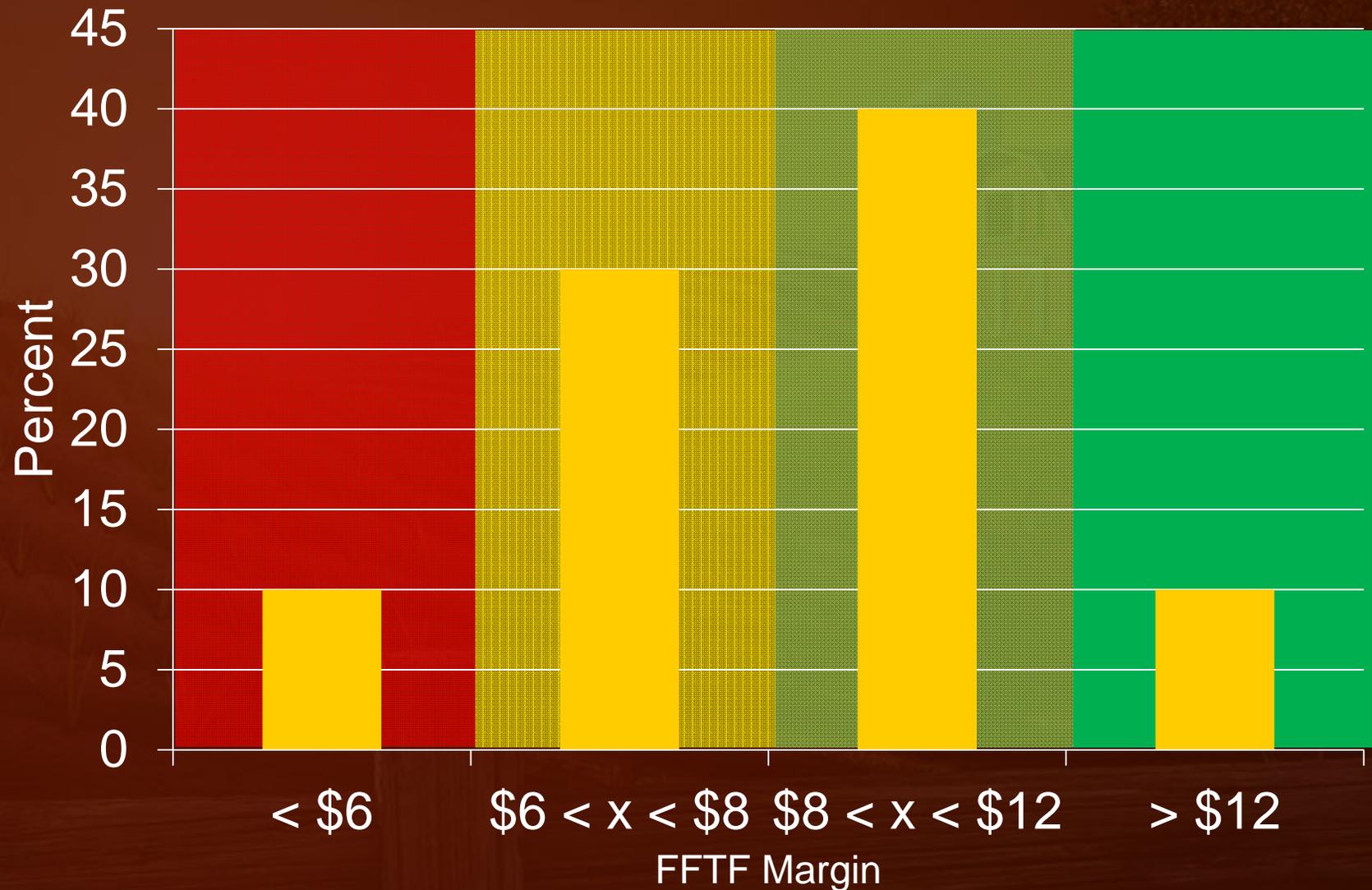
Range of FFTF Margin Outcomes



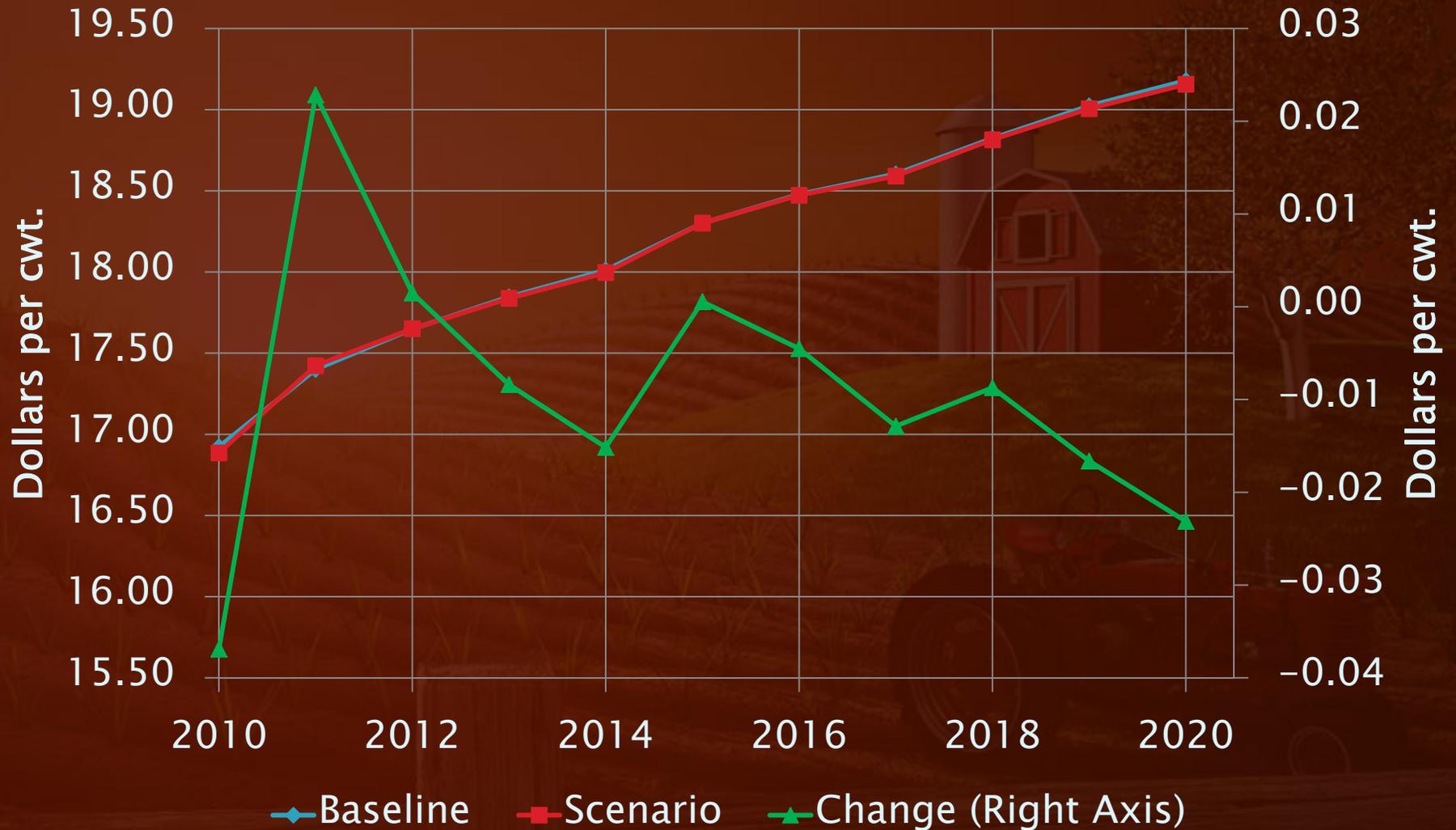
Range of FFTF Margin Outcomes



A Look At Expected FFTF Margins



Effects of DPMPP - US All Milk Price



Summary

- Tough to see the exact path and timing for the next farm bill
- The federal budget one of the major drivers
- Many crops seeing high market prices
- Margin protection important to many, NMPF adopted FFTF
- The political landscape has changed
- The geographic landscape of Agriculture Committees has shifted
- Something new could emerge that will drive the outcome for the next farm bill

Questions

Scott Brown

(573) 882 – 3861

browns@missouri.edu

www.fapri-mu.org